

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

BATTLE CREEK HOUSING COMMISSION

Financial Statements

September 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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BATTLE CREEK HOUSING COMMISSION

250 Champion Street
Battle Creek, Michigan 49017

This discussion and analysis of the Battle Creek Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission including our business activity and Component Unit, the Battle Creek Housing Corporation (Georgetown Estates).

Fund Statements

The Financial Data Schedule reports the Commission's operation in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded the following Federal Assistance:

	Year 2004	Year 2003
Operating Subsidies	\$ 481,783	\$ 527,568
Capital Fund Program Funding	698,234	675,634
Section 8 Housing Choice Vouchers	1,718,684	1,570,175
Section 8 New Construction (Bedford Manor)	523,691	519,143

At eight months into the fiscal year, HUD amended the Section 8 Housing Choice Voucher Grant by reducing the amount previously authorized for Housing Assistance Payments and Administrative Fee. Consequently the PHA implemented cost containing measures on program participants to remain within budget. With four month remaining in the fiscal year the PHA exceeded the revised Section 8 Housing Choice Voucher grant and experienced a deficit of \$12,002.54.

The low rent and the homeownership programs ended the fiscal year with residual receipts adding to the project reserves.

The Commission's cash position increased during the year; our fixed assets after depreciation increased, and Net Assets increased. The following represents the aforementioned position.

	2004	2003
Cash	\$ 3,747,704	\$ 3,634,084
Fixed Assets, net of Depreciation	12,476,717	12,874,996
Net Assets	16,161,305	16,339,815

General Fund Budgetary Highlights

The Commission approved an operating budget on June 25, 2003 for fiscal year ending September 30, 2004 and the budget was revised on September 22, 2004 to more closely reflect actual income and expense.

A significant variation occurred in the amount of residual receipts anticipated in the homeownership program. Due to the economy a significant portion of the residents experienced reductions in income that resulted in less than anticipated rental revenue. This program does not receive operating subsidy. Additionally several homes were sold to the resident population resulting in additional lost revenue through the year. The program ended with residual receipts of \$25,424.

The 2002 Capital Fund Program was completed in a timely manner and bids were received and accepted for the 2003 Capital Fund Program as well as the 2003 CFP bonus.

In addition to the operating budget, the Annual Plan and 5-Year Plan were reviewed by the Resident Council and staff, submitted timely and approved.

Entity Wide Capital Assets

At the close of the fiscal year, the Commission had \$12,476,717 in capital assets with accumulated depreciation of \$9,720,876. This represents a \$398,279 increase over 2003. Improvements to dwelling units and site improvements are detailed in the 2002 and 2003 Capital Fund Program work schedule.

The business activities and component unit information is not included in the above figures but are included in the single audit performed for FYE 9/30/2004.

Commission's Position

The Commission's financial position remains strong although there is significant concern regarding occupancy. From phone surveys to other area property managers, generally all properties are experiencing vacancies and have very short waiting lists. This is attributed to the influx of properties financed with low income housing tax credits. It appears the area has reached a saturation point as evidenced by some low income housing tax credit developments built as recently as 4-6 years ago now experiencing cash flow and occupancy problems, yet developers continue to build additional properties within the metropolitan area.

Additionally interest rates continue to be favorable to the homebuyer and there is a greater choice of properties on the market. Consequently some of the homes owned by the Battle Creek Housing Commission that are located in neighborhoods experiencing social challenges are more difficult to occupy causing longer periods of vacancy than previously experienced.

With the upcoming retirement of the executive director, the Commission has entered into a contract with a property management company to assume the operations of the agency effective May 1, 2005. The operations of the Housing Commission will essentially remain the same using the existing staff meeting all regulatory requirements imposed by the Department of Housing and Urban Development. It is anticipated the new management will bring operational efficiencies as well as cost savings due to increased purchasing power and staffing efficiencies. The goal is to eventually form a consortia of housing agencies offering more efficient management and cost savings in light of dwindling congressional budgets. The management company has begun limited involvement learning procedures at no cost to the agency anticipating a smooth transition.

The Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income families.

Kenneth P. Dey
Executive Director

John C. DiPiero, P.C.

Certified Public Accountant

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Hemlock, Michigan 48626
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Board of Commissioners
Battle Creek Housing Commission
250 Champion Street
Battle Creek, Michigan 49017

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Battle Creek Housing Commission as of and for the year ended September 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit. I did not audit the financial statements of the Battle Creek Housing Corporation (Component Unit), whose statements reflect total assets of \$ 1,720,971 as of December 31, 2003, and total revenues of \$ 734,688 for the year then ended. Those statements were audited by other auditors whose report has been furnished to me, and in my opinion, insofar as it relates to the amounts included for the Component Unit, is based solely on the report of the other auditors.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of October 1, 2003. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Battle Creek Housing Commission as of September 30, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

December 17, 2004

BATTLE CREEK HOUSING COMMISSION
Combined Statement of Net Assets
September 30, 2004

ASSETS

C-3030

CURRENT ASSETS

Cash	\$ 5,232,242	
Accounts Receivable (net of allowance for doubtful account \$ 18,515)	20,093	
Accounts Receivable- Other	98,701	
Investments	592,909	
Investments-Restricted	222,574	
Prepaid Expenses	56,891	
Inter Program due from	<u>290,030</u>	
Total Current Assets		\$ 6,513,440

NON CURRENT ASSETS

Land	\$ 657,545	
Buildings	21,513,535	
Furniture, Equipment- Dwellings	65,054	
Furniture, Equipment- Administrative	407,540	
Construction in Progress	1,223,858	
Accumulated Depreciation	<u>(10,025,319)</u>	
Total Non Current Assets		13,842,213

OTHER ASSETS

Notes Receivable-non current	\$ 2,372	
Other Assets	<u>76,956</u>	
Total Other Assets		<u>79,328</u>

<u>TOTAL ASSETS</u>		<u>\$ 20,434,981</u>
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BATTLE CREEK HOUSING COMMISSION
Combined Statements of Net Assets
September 30, 2004

LIABILITIES

C-3030

CURRENT LIABILITIES

Bank Overdraft	\$ 17,064	
Accounts Payable	37,456	
Accrued Liabilities	74,830	
Tenants Security Deposit	81,458	
Accounts Payable- Other Governments	43,144	
Deferred Revenue	21,464	
Current Portion Long Term Debt	55,000	
Other Current Liabilities	22,532	
Inter-Program due to	<u>290,030</u>	
<u>Total Current Liabilities</u>		\$ 642,978

NONCURRENT LIABILITIES

Housing Revenue Bonds	\$ 1,045,000	
Less: current portion above	<u>55,000</u>	
	\$ 990,000	
Homeownership Trust Funds	410,737	
Compensated Absences-noncurrent	<u>47,613</u>	
<u>Total Noncurrent Liabilities</u>		<u>1,448,350</u>
<u>Total Liabilities</u>		\$ 2,091,328

NET ASSETS:

Investment in Fixed Assets, net of related Debt	\$ 13,842,213	
Restricted Net Assets	990,405	
Unrestricted Net Assets	<u>3,511,035</u>	
<u>Total Net Assets</u>		<u>18,343,653</u>
<u>TOTAL LIABILITIES & NET ASSETS</u>		\$ <u>20,434,981</u>

The Accompanying Notes are an Integral part of the Financial Statements

BATTLE CREEK HOUSING COMMISSION
Combined Statement of Income and Expenses
For the year ended September 30, 2004

REVENUE

Tenant Rental Revenue	\$ 1,595,864	
Tenant Revenue- Other	14,485	
HUD Grants	3,362,009	
Interest Income	49,915	
Interest Income- Restricted	1,814	
Other Income	<u>123,856</u>	
<u>Total Revenue</u>		\$ 5,147,943

EXPENSES

Administrative	\$ 868,223	
Tenant Services	136,101	
Utility Expenses	356,669	
Ordinary Maintenance	682,960	
General Expenses	<u>338,555</u>	
<u>Total Expenses</u>		<u>2,382,508</u>
<u>Excess (Deficiency) of Revenues over Expenses</u>		\$ 2,765,435

OTHER SOURCES & (USES)

Gain (Loss) on the Sale of Fixed Assets	\$ (96,748)	
Extraordinary Maintenance	(10,683)	
Casualty Losses	(22,464)	
Interest Expense	(24,981)	
Housing Assistance Payments	(2,020,583)	
Depreciation Expenses	<u>(715,618)</u>	
<u>Total Other Sources (Uses)</u>		<u>(2,891,077)</u>
<u>Change in Net Assets</u>		\$ <u>(125,642)</u>
Total Net Assets- Beginning		18,371,097
Prior Period Adjustment: Correction of Prior Year		
Accruals & Equity Transfer		<u>98,198</u>
Adjusted Beginning Balance		\$ <u>18,469,295</u>
Total Net Assets- Ending		\$ <u>18,343,653</u>

The Accompanying Notes are an Integral part of the Financial Statements

BATTLE CREEK HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended September 30, 2004

	<u>Business Type Activities</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from Customers	\$ 1,609,780
Payments to Suppliers	(2,877,710)
Payments to Employees	(656,056)
HUD Grants	3,362,009
Other Receipts (Payments)	<u>77,023</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>1,515,046</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchases of Capital Assets	\$ (447,801)
Principal paid on Debt	<u>(55,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ <u>(502,801)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,012,245
Balance- Beginning of Year	<u>4,219,997</u>
Balance- End of Year	\$ <u>5,232,242</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Net Profit or (Loss)	\$ 125,642
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	715,618
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(31,999)
Investments	837,485
Prepaid Expenses	9,858
Other Assets	(2,470)
Interfund Due From	864
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(101,839)
Accrued Liabilities	23,191
Security Deposits	(1,901)
Accounts Payable- Other Governments	(62,472)
Deferred Revenue	3,117
Other Liabilities	816
Interfund Due To	<u>(864)</u>
Net Cash Provided by Operating Activities	\$ <u>1,515,046</u>

The Accompanying Notes are an Integral part of the Financial Statements

BATTLE CREEK HOUSING COMMISSION
Notes to Financial Statements
September 30, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Battle Creek Housing Commission, Battle Creek, Michigan, (Commission) was created by ordinance of the city of Battle Creek. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 35	Low rent program	320	units
	Homeownership	77	units
	Housing Choice Voucher	415	units
MI 35	New Construction	125	units
Component Unit		132	units
Business Activity Account		17	units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. The Financial Data Schedule lists all the programs of the Reporting Entity including component units should they exist, as defined above.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Notes to Financial Statements- continued

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Inventory

Inventory is valued at the lower of cost (First in, First out) or market. Inventory consist of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 240,334
Petty Cash	100
Savings Accounts	3,764,668
Cash equivalents, below	<u>1,227,140</u>

Financial Statement Total	\$ <u>5,232,242</u>
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Investments:

Certificates of Deposit	\$ 592,909
Savings Accounts	1,227,140
Cash equivalents, above	<u>(1,227,140)</u>

Financial Statement Total	\$ <u>592,909</u>
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Investments-Restricted:

Bond Fund	\$ 45,731
Revenue & Operating Fund	11,913
Tax & Insurance Fund	70,998
Credit Facility Fund	133
Repair & Replacement Fund	12,079
Investment Fund	<u>81,720</u>

Financial Statement Total	\$ <u>222,574</u>
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Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 240,334	\$	\$	\$ 240,334	\$ 240,334
Petty Cash	100			100	100
Savings Account	<u>4,991,808</u>			<u>4,991,808</u>	<u>4991,808</u>
Total Cash	\$ <u>5,232,242</u>	\$	\$	\$ <u>5,232,242</u>	\$ <u>5232,242</u>

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Investments:					
C/D's	\$ <u>592,909</u>	\$ _____	\$ _____	\$ <u>592,909</u>	\$ <u>592,909</u>
Investments-Restricted:					
Money Market	\$ <u>222,574</u>	\$ _____	\$ _____	\$ <u>222,574</u>	\$ <u>222,574</u>

Note 3: Accounts Receivable-Other

Accounts receivable other consists of the following:

Accounts Receivable- HUD	\$ 53,890
Accounts Receivable- Other Governments	35,486
Accrued Interest Receivable	700
Accounts Receivable- Miscellaneous	<u>8,625</u>
Financial Statement Total	\$ <u>98,701</u>

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ 37,277
Inventories	<u>19,614</u>
Financial Statement Total	\$ <u>56,891</u>

Note 5: Fixed Asset Analysis

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 657,545	\$	\$	\$ 657,545
Buildings	21,718,713		205,178	21,513,535
Furniture & Equipment-Dwellings	63,358	1,696		65,054
Furniture & Equipment-Admin	379,322	28,218		407,540
Construction in Progress	<u>775,971</u>	<u>447,887</u>		<u>1,223,858</u>
	\$23,594,909	\$ 477,801	\$ 205,178	\$23,867,532
Less Accumulated Depreciation	<u>9,313,831</u>	<u>715,618</u>	<u>4,130</u>	<u>10,025,319</u>
	\$ <u>14,281,078</u>	\$ <u>(237,817)</u>	\$ <u>201,048</u>	\$ <u>13,842,213</u>

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ 42,335
Account Payable- HUD	20,562
Compensated Absences	<u>11,933</u>
Financial Statement Total	<u>\$ 74,830</u>

Note 7: Accounts Payable- Other Governments

Accounts Payable other governments consists of the following:

Accounts Payable- Battle Creek	\$ 43,144
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Note 8: Long Term Debt

The Commission's Component Unit, the Battle Creek Housing Corporation (Corporation) issued housing revenue bonds, Series 1997A, in 1997 for \$ 1,375,000 to fund the purchase of rental property and equipment. The bonds are payable in annual installments of \$ 55,000 through February 2027. Interest is due monthly at a variable rate (1.65% at December 31, 2003. Subsequent to year-end, the Corporation converted these bonds to a fixed rate of 3.1%.

The following represents the principal obligations over the next five years:

December 31, 2005	\$ 55,000
December 31, 2006	55,000
December 31, 2007	55,000
December 31, 2008	55,000
December 31, 2009	55,000
Thereafter	770,000

Due to the unique regulatory constraints of the debt it is impracticable to estimate the fair value of debt.

Note 9: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after September 30, 1998. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

Contributed Capital was increased by additional capital contributions for all years prior to September 30, 2001, and decreased by depreciation add backs annually. For a detail of the current balance, see the Combined Statement of Contributed Capital within this report.

Restricted Net Assets consist of proceeds from the sale of Turnkey III homes; the ultimate disposition of those proceeds will result from instruction from the funding agency, HUD.

Note 11:Retirement.

The Battle Creek Housing Commission contributes to the Municipal Employees Retirement System (MERS), a multi-employer defined benefit pension plan administered by the State of Michigan, through the City of Battle Creek. Details concerning the plan are available in the annual report of MERS. This plan covers all regular, full-time employees of the Housing Commission. Other statistical and historical data required by GASB Statement No. 5 is not included herein because data for the Housing Commission is not available from MERS.

The Commission pays the City of Battle Creek to administer all payroll and benefits for the Commission; the employees are not City employees, however, all statistical data of the Commission employees is included in the reporting of the City, therefore, no Commission statistical data is available.

Note 12:Component Unit

In 1997 the Battle Creek Housing Commission wanted to obtain and operate a 132 unit low to moderately low income complex; however, at the time the Commission was prohibited from owning property, therefore the Commission formed a non profit, 501 (c)(3) organization to act on its behalf securing the financing and acquisition of the complex. In addition, the city of Battle Creek pledged its full faith and credit behind the Housing Bonds. The Component Unit is managed and audited by a separate group; the results of the operations are reported as a blended unit in the combining balance sheet and combining income statement as a component unit of the Battle Creek Housing Commission. The Component Unit has a December 31, year end.

Note 13:Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 38,767,920
General Liability	3,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

Note 14:Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 15:Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Commission

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Business Activity Account	New Construc- tion Section 8	Compon- ent Unit	PIH Drug Elimin. Program 14.854	Capital Projects Funds 14.872	TOT
Cash:									
	Cash - unrestricted	3,764,768	-	1,349,638		117,836			5,232,2
	Cash - restricted - modernization and development								
	Cash - other restricted								
	Cash - tenant security deposits	-							
Total cash		3,764,768	-	1,349,638	-	117,836	-	-	5,232,2
Accounts and notes receivables:									
	Accounts receivable - PHA projects								
	Accounts receivable - HUD other projects	-			-		-	53,890	53,890
	Accounts receivable - other government	35,486							35,486
	Accounts receivable - miscellaneous	899				7,226			8,125
	Accounts receivable- tenants - dwelling rents	36,758		1,850		-			38,608
	Allowance for doubtful accounts - dwelling rents	(18,515)							(18,515)
	Allowance for doubtful accounts - other								
	Notes and mortgages receivable- current					500			500
	Fraud recovery								
	Allowance for doubtful accounts - fraud								
	Accrued interest receivable	695	5						700
Total receivables, net of allowances for doubtful accounts		55,323	5	1,850	-	7,726	-	53,890	118,79
	Investments - unrestricted	402,909	-	190,000		-			592,90
	Investments - restricted					222,574			222,57
	Prepaid expenses and other assets	37,277				3,527			40,804
	Inventories	16,087							16,087
	Allowance for obsolete inventories	-							
	Interprogram - due from	53,890	230,926	-	5,214				290,03
Amounts to be provided									

	4,330,254	230,931	1,541,488	5,214	351,663	-	53,890	6,513,4
Fixed assets:								
Land	542,673	-	49,872	-	65,000			657,54
Buildings	20,093,857				1,419,678			21,513
Furniture, equipment & machinery - dwellings	-	-			65,054			65,054
Furniture, equipment & machinery - administration	298,122	24,628	70,335				14,455	407,54
Leasehold improvements							-	
Construction in Progress							1,223,858	1,223,8
Accumulated depreciation	(9,651,626)	(8,209)	(44,691)		(259,752)		(61,041)	(10,02)
Total fixed assets, net of accumulated depreciation	11,283,026	16,419	75,516	-	1,289,980	-	1,177,272	13,842
Notes and mortgages receivable - non-current					2,372			2,372
Notes and mortgages receivable-non-current-past due								
Other assets					76,956			76,956
Undistributed debits								
Investment in joint ventures								
	11,283,026	16,419	75,516	-	1,369,308	-	1,177,272	13,921
	15,613,280	247,350	1,617,004	5,214	1,720,971	-	1,231,162	20,434
	-							
Bank overdraft	17,064							17,064
Accounts payable ≤ 90 days	19,509	178	0		17,769	-	-	37,456
Accounts payable > 90 days past due								
Accrued wage/payroll taxes payable	42,335							42,335
Accrued compensated absences	11,933	-						11,933
Accrued contingency liability								
Accrued interest payable								
Accounts payable - HUD PHA programs		16,542	-	4,020				20,562
Accounts Payable - PHA Projects								
Accounts payable - other government	-	-	43,144					43,144

Tenant security deposits	54,856		3,380	-	23,222			81,458
Deferred revenues	14,404				7,060			21,464
Current portion of Long-Term debt - capital projects					55,000			55,000
Current portion of Long-Term debt - operating borrowings								
Other current liabilities	6,480				16,052			22,532
Accrued liabilities - other	-							
Inter-program - due to	236,140	-		-		-	53,890	290,030
	402,721	16,720	46,524	4,020	119,103	-	53,890	642,978
Long-term debt, net of current- capital projects					990,000			990,000
Long-term debt, net of current- operating borrowings								
Noncurrent liabilities- other	410,737							410,737
Accrued Compensated Absences-non current	47,613							47,613
	458,350	-	-	-	990,000	-	-	1,448,350
	861,071	16,720	46,524	4,020	1,109,103	-	53,890	2,091,308
Investment in general fixed assets								
Project notes (HUD)								
Long-term debt - HUD guaranteed								
Net HUD PHA contributions	-	-	-					
Other HUD contributions	-							
Other contributions	-							
	-	-	-	-	-	-	-	
Investment in Fixed Assets net of related debt	11,283,026	16,419	75,516		1,289,980		1,177,272	13,842,253
Reserved for operating activities								
Reserved for capital activities								
	-	-	-	-	-	-	-	
Undesignated fund balance/retained earnings	-	-	-	-	-		-	
Unrestricted Net Assets	2,478,778	214,211	1,494,964	1,194	(678,112)			3,511,035
Restricted Net Assets	990,405							990,405

	14,752,209	230,630	1,570,480	1,194	611,868	-	1,177,272	18,343
	15,613,280	247,350	1,617,004	5,214	1,720,971	-	1,231,162	20,434

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Battle Creek Housing
Commission

30-Sep-
04

MI-035

Combining Income Statement	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Busines s Activity Account	New Construc- tion Section 8	Compon- ent Unit	PIH Drug Elimin. Program 14.854	Capital Projects Funds 14.872	TOTAL
REVENUE:								
Net tenant rental revenue	918,390		5,400		672,074			1,595,804
Tenant revenue - other	14,485		-	-	-	-	-	14,485
Total tenant revenue	932,875	-	5,400	-	672,074	-	-	1,610,349
HUD PHA grants	481,783	1,718,685	-	523,671		11,547	626,323	3,362,009
Other government grants								-
Investment income - unrestricted	23,853	2,359	23,703					49,915
Mortgage interest income	-							-
Fraud recovery		-	-	-	-	-	-	-
Other revenue	22,785	155	40,116	-	60,800	-	-	123,856
Gain or loss on the sale of fixed assets	(96,748)	-	-	-	-	-	-	(96,748)
Investment income - restricted		-	-	-	1,814	-	-	1,814
- - -		-	-	-	-	-	-	
TOTAL REVENUE	1,364,548	1,721,199	69,219	523,671	734,688	11,547	626,323	5,051,195
EXPENSES:		-						
Administrative								
Administrative salaries	175,108	120,960	-		129,930		40,421	466,419
Auditing fees	4,300	1,000	-		21,480			26,780
Outside management fees			-	35,691	34,203			69,894
Compensated absences	(3,124)	-	-					(3,124)
Employee benefit contributions- administrative	89,889	65,281	-		-		19,754	174,924
Other operating- administrative			7,179		26,023	-		

	80,204	6,836					13,088	133,330
Tenant services								
Tenant services - salaries	12,985							12,985
Relocation costs								-
Employee benefit contributions- tenant services	7,019							7,019
Tenant services - other	-		13,832			11,547	90,718	116,097
Utilities								
Water	73,025				55,629			128,654
Electricity	115,148				59,263			174,411
Gas	53,604							53,604
Fuel								-
Labor								-
Employee benefit contributions- utilities								-
Other utilities expense	-							-
Ordinary maintenance & operation								
Ordinary maintenance and operations - labor	176,652							176,652
Ordinary maintenance and operations - materials & other	49,712	571			44,855			95,138
Ordinary maintenance and operations - contract costs	192,774	1,862			121,580			316,216
Employee benefit contributions- ordinary maintenance	94,954							94,954
Protective services								
Protective services - labor								-
Protective services- other contract costs								-
Protective services - other								-
Employee benefit contributions- protective services								-
General expenses								
Insurance premiums	96,250	4,089			25,185			125,524
Other General Expenses					26,829			26,829
Payments in lieu of taxes	60,382				44,053			104,435
Bad debt - tenant rents	27,480				54,287			81,767
Bad debt- mortgages								-
Bad debt - other								-
Interest expense					24,981			24,981
Severance expense								

									-
	TOTAL OPERATING EXPENSES	1,306,362	200,599	21,011	35,691	668,298	11,547	163,981	2,407,439
	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	58,186	1,520,600	48,208	487,980	66,390	-	462,342	2,643,706
	Extraordinary maintenance	1,330				9,353			10,683
	Casualty losses - non-capitalized	22,464							22,464
	Housing assistance payments		1,532,603	-	487,980				2,020,533
	Depreciation expense	604,515	2,463	3,066		46,245		59,329	715,618
	Fraud losses								-
	Capital outlays- governmental funds	-							-
	Debt principal payment- governmental funds								-
	Dwelling units rent expense								-
	TOTAL EXPENSES	1,934,671	1,735,665	24,077	523,671	723,896	11,547	223,310	5,176,837
	OTHER FINANCING SOURCES (USES)								
	Operating transfers in								
	Operating transfers out								
	Operating transfers from/to primary government								
	Operating transfers from/to component unit								
	Proceeds from notes, loans and bonds								
	Proceeds from property sales								
	TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-	-	-
	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(570,123)	(14,466)	45,142	-	10,792	-	403,013	(125,643)

BATTLE CREEK HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3030 Operating Subsidies	\$ <u>481,783</u>
* <u>CFDA 14.871 Housing Assistance Programs</u>	
C-3030 Section 8 Housing Choice Vouchers	\$ <u>1,718,685</u>
* <u>CFDA 14.872 Capital Projects Grants</u>	
C-3030 Capital Projects Funds	\$ <u>626,323</u>
* <u>CFDA 14.182 Section 8 New Construction</u>	
C-3030 New Construction	\$ <u>523,671</u>
<u>CFDA 14.854 Drug Elimination Grant</u>	
C-3030 Drug Elimination program	\$ <u>11,547</u>
	\$ <u>3,362,009</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 38,767,920
General Liability	3,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders:	Coverage's required
by the State of Michigan	

*Connotes Major Program Category

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BATTLE CREEK HOUSING COMMISSION
Status of Prior Audit Findings
September 30, 2004

The prior audit of the Battle Creek Housing Commission for the period ended September 30, 2003, did not contain any audit findings.

BATTLE CREEK HOUSING COMMISSION
Report on Compliance Applicable to Each Major Program
and on Internal Control over Compliance in
Accordance with OMB Circular A-133
September 30, 2004

Compliance

I have audited the compliance of Battle Creek Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2004. Battle Creek Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Battle Creek Housing Commission's management. My responsibility is to express an opinion on Battle Creek Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Battle Creek Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Battle Creek Housing Commission's compliance with those requirements.

In my opinion, Battle Creek Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control over Compliance

The management of Battle Creek Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Battle Creek Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

March 23, 2004

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BATTLE CREEK HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
September 30, 2004

I have audited the financial statements of Battle Creek Housing Commission, Battle Creek, Michigan, as of and for the year ended September 30, 2004, and have issued my report thereon dated March 23, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Battle Creek Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instance of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Battle Creek Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

March 23, 2004

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BATTLE CREEK HOUSING COMMISSION
Schedule of Findings and Questioned Cost
September 30, 2004

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Program	X	
Capital Projects	X	
Section 8 New Construction	X	
Drug Elimination	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.